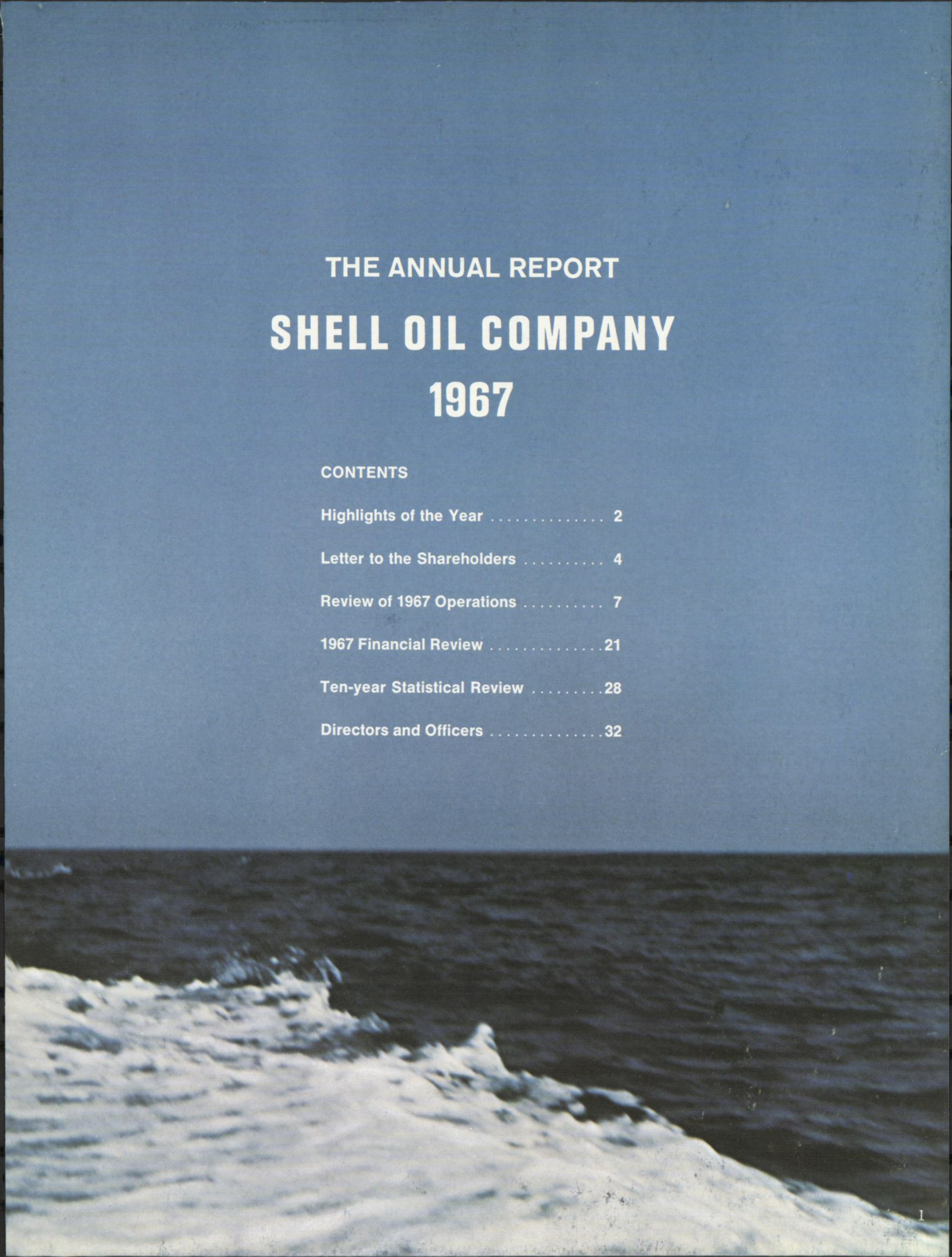
INFORMATION BUREAU

SHELL OIL COMPANY 1967 ANNUAL REPORT

Front cover • Professional landscaping enhances the attractive appearance of new Shell service stations.

Inside front cover • This permanent drilling platform stands on the floor of the Gulf of Mexico off the coast of Louisiana at a record water depth of 340 feet.



THE ANNUAL REPORT

SHELL OIL COMPANY

1967

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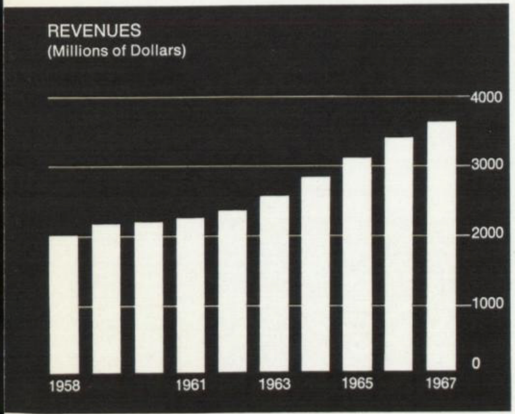
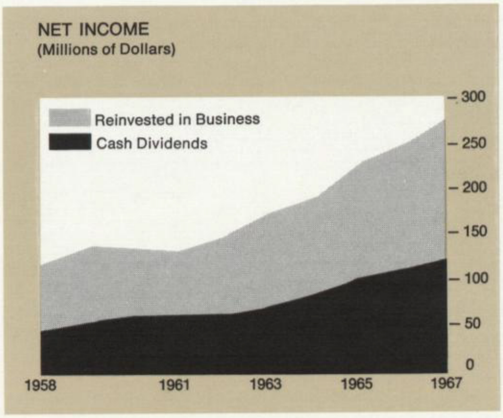
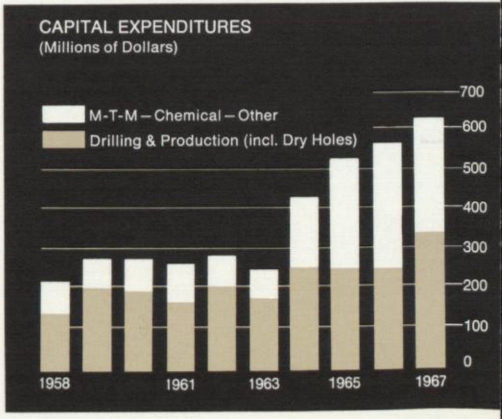
New units at the Martinez, California, Refinery.



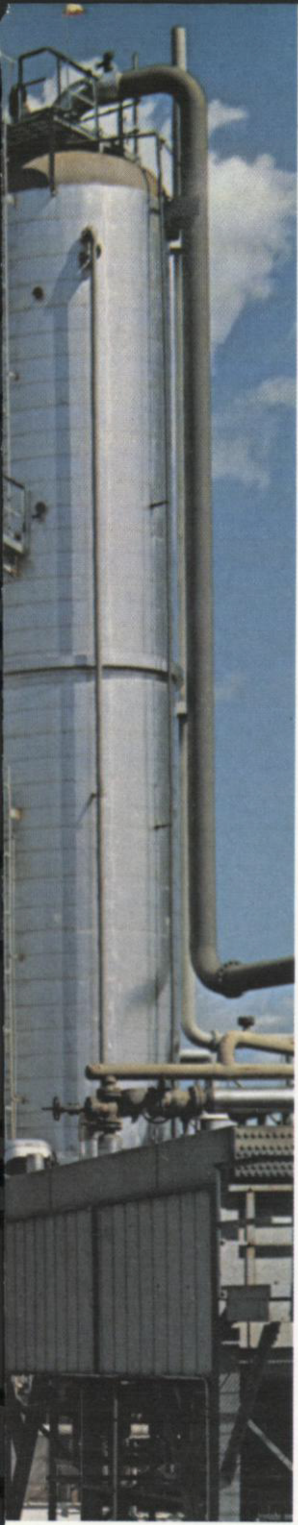
REVENUES
(Millions of Dollars)



NET INCOME
(Millions of Dollars)



CAPITAL EXPENDITURES
(Millions of Dollars)

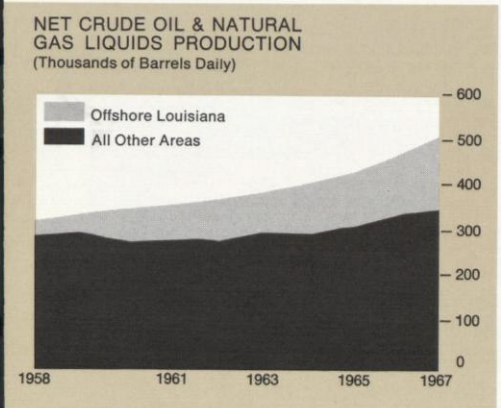


HIGHLIGHTS OF THE YEAR

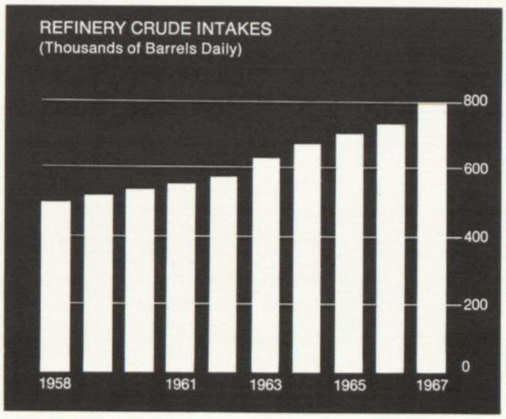
Financial	67	66
Revenues	$3,674,174,000	$3,397,871,000
Net Income	$ 284,849,000	$ 255,200,000
Per Share	$4.66	$4.19
Cash Dividends	$ 128,280,000	$ 115,731,000
Per Share	$2.10	$1.90
Capital Expenditures	$ 618,887,000	$ 563,975,000
Shareholders' Investment	$2,067,340,000	$1,897,934,000
Total Assets	$3,420,546,000	$3,034,815,000

Operating

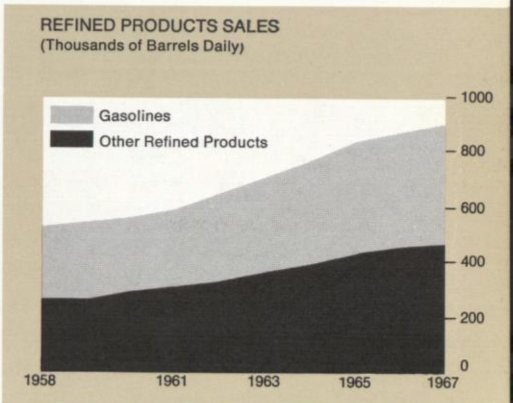
Net Crude Oil and Natural Gas Liquids Produced—Barrels Daily	514,000	474,000
Net Natural Gas Produced—Thousand Cubic Feet Daily	2,046,000	1,834,000
Refinery Crude Intakes—Barrels Daily	795,000	733,000
Refined Products Sold—Barrels Daily	921,000	872,000
Chemical Sales Revenue	$ 437,086,000	$ 400,676,000



NET CRUDE OIL & NATURAL GAS LIQUIDS PRODUCTION
(Thousands of Barrels Daily)



REFINERY CRUDE INTAKES
(Thousands of Barrels Daily)



REFINED PRODUCTS SALES
(Thousands of Barrels Daily)

TO THE SHAREHOLDERS

We are pleased to report on the activities of Shell Oil Company for the year 1967. Records were established in virtually all aspects of operations, resulting in new high levels of revenues and earnings. The Company's increases in most categories of its operations were greater than those of the domestic oil industry.

Consolidated net income was $284.8 million, or $4.66 per share, an increase of $29.6 million, or 12 percent, over 1966 and a new high for the sixth consecutive year. The return on shareholders' investment advanced to 15 percent, continuing a six-year upward trend. Dividends, which were increased for the fifth successive year, amounted to $2.10 in 1967, compared with $1.90 in 1966. Total revenues for the year rose 8 percent, to $3,674 million.

The significant factors contributing to the increase in 1967 results were record production of liquid hydrocarbons and natural gas, sharply increased refinery runs stemming from new and modernized facilities which lowered unit supply cost, higher sales volumes of refined products, and the broadened federal investment tax credit. These favorable factors were partially offset by higher costs resulting principally from increased throughputs and pre-operating and start-up costs associated with new manufacturing facilities.

In 1967 net production of liquid hydrocarbons increased 8 percent over the previous year, due in part to the Middle East situation. Net natural gas production rose 12 percent, refinery crude intakes 8 percent, and the volume of sales of refined products 6 percent. Chemical sales revenue amounted to a record $437 million, up 9 percent.

Capital expenditures in 1967 of $619 million were the largest in the Company's history. They raised the four-year total of such expenditures to $2.1 billion, about half of which was invested in the modernization and expansion of oil and chemical manufacturing, transportation and marketing facilities. The rest was spent on intensified exploration and development of oil and gas properties. In addition, exploration expenses charged against earnings in the past four years totaled $312 million, including $85 million in 1967.

A large proportion of these expenditures has been made in the offshore area of Louisiana. The efforts there have contributed greatly to the Company's growth. The Company has invested about one-eighth of the total amount invested by all oil companies in the Louisiana offshore area and has obtained about one-fourth of the cumulative production. Currently, offshore Louisiana production accounts for one-third of the Company's total crude oil and condensate production. Within the past year the Company's leading position in this offshore area was reinforced when $101.8 million was paid for federal leases, the largest expenditure for this purpose in the Company's history and one-fifth of the total amount spent by the industry. Significant discoveries have already been made on this acreage.

The Company's program of expanding and modernizing its manufacturing facilities was carried forward. New units at Martinez, California, and Norco, Louisiana, were brought up to design operating capacities, and a major construction project continued at Wood River, Illinois. The new units incorporate the most advanced technology for processing crude oil to yield a much higher proportion of lighter, more valuable products.

The benefits of the large capital expenditures of recent years have already been reflected in improved financial results. We are continuing with a substantial investment program which we believe will be the foundation for further growth.

To sustain this investment program, the Company sold $150,000,000 of its 5.30% debentures in March, 1967, and has just completed an equity financing through a distribution of rights to shareholders giving them the opportunity to subscribe for 6,123,985 shares of its authorized but unissued Common Stock. The net proceeds received were

March 29, 1968

added to the general funds of the Company and will be available, together with internally generated funds, for general corporate purposes, including capital expenditures.

Domestic demand for petroleum is expected to increase in 1968 at about the same rate as in 1967. We are confident that the Company's performance this year will again compare favorably with that of the oil industry.

The subjects of air and water pollution abatement have received increasing attention in the past year, with federal legislation in both fields now in the process of being implemented at state and local levels. The Company has had for years a constructive attitude toward these important matters. In the design of manufacturing plants and other facilities, all feasible means are used to prevent the escape of effluents which might pollute the environment.

The automobile, in particular, has recently received a great deal of attention as a cause of air pollution. Many suggestions have been made in the past year for other forms of transportation, particularly in urban areas. Among these proposals have been frequent suggestions that electrically propelled vehicles replace cars driven by internal combustion engines. We believe that the internal combustion engine is the best mobile power plant available, now or in the foreseeable future. We think that the sensible course is to continue with research and development work seeking to reduce objectionable emissions from the internal combustion engine. The Company has joined with other companies to undertake, in cooperation with the automobile industry, a multimillion-dollar three-year research program with this objective in view. In addition, we are conducting in our own laboratories several research projects in the field of air and water pollution abatement.

We wish to express the appreciation of the Board of Directors for the significant contributions made by C. W. Humphreys, a Director, and President of Shell Chemical Company, who retired July 31 after a distinguished career of 36 years with Shell. Mr. Humphreys was associated with Shell Chemical virtually from its beginning. His successor is J. B. St. Clair, formerly Vice President Transportation and Supplies of Shell Oil Company.

We note with regret the death last year of Thomas A. Morgan, a Director Emeritus, who had been a member of the Board of Directors from 1944 to 1963.

A more detailed survey of the Company's activities in 1967 is set forth on the following pages of this report. It is of necessity a factual recital of things accomplished and things begun by Shell people. The fact that we can mount and maintain an expansion program of such magnitude is a continuing tribute to the inventiveness, foresight, industry, and spirit of cooperation that they exhibit all along the line. It has brought particular satisfaction to your management to see them meet the extra challenges that came in 1967 while handling an ongoing program of unprecedented size.

Again, we express our appreciation for the opportunity of serving our shareholders and customers. We hope to merit their continuing support.

FOR THE BOARD OF DIRECTORS

Monroe E. Spaght

Monroe E. Spaght
Chairman

R. C. McCurdy
President

One of the newest jack-up type mobile drilling rigs, the Ocean Master, is shown on location for Shell far from shore in the Gulf of Mexico.

REVIEW OF 1967 OPERATIONS

E&P EXPLORATION PRODUCTION

Production of liquid hydrocarbons and natural gas rose to record levels for the eighth consecutive year. The gain in production of liquids, both for the Company and for the industry, was higher than it otherwise would have been because of the Middle East situation. The Company's increase in liquids production of 40,000 net barrels per day was partly attributable to higher allowables in Louisiana and Texas. Daily average production for the year amounted to 514,000 net barrels of liquids and 2.05 billion net cubic feet of gas. These rates were 8 percent and 12 percent, respectively, above the 1966 levels.

COMPARISON OF OFFSHORE AND ONSHORE PRODUCTION

	1967		1966	
	Volume	% of Total	Volume	% of Total
Net Crude & Condensate Production (Thousands of barrels daily)				
Offshore	172	37	141	33
Onshore	288	63	281	67
Total	460		422	
Net Natural Gas Production (Million cubic feet daily)				
Offshore	624	30	400	22
Onshore	1,422	70	1,434	78
Total	2,046		1,834	

Oil and Gas Reserves Recoverable oil and gas reserves cannot be measured exactly; therefore, all estimates are subject to revision. The Company estimates that additions to its net proved reserves of crude oil and natural gas liquids and of natural gas have more than replaced withdrawals from such reserves during the five-year period ended December 31, 1967. It is estimated that, as of December 31, 1967, the Company's net proved reserves amounted to 2.4 billion barrels of crude oil and natural gas liquids and 10.5 trillion cubic feet of natural gas. Estimated net proved reserves as of December 31, 1962, were 2.2 billion barrels and 8.7 trillion cubic feet, and as of December 31, 1966, were 2.5 billion barrels and 10.8 trillion cubic feet, respectively. The Company also estimates that at December 31, 1967, 78 percent of the crude oil and natural gas liquid reserves and 84 percent of the natural gas reserves were recoverable without drilling additional wells. Net reserves represent the estimated volume after deducting from gross reserves the portion due land owners or others as royalty or operating interest.

Drilling The Company continued its extensive program of geophysical work and exploratory drilling off the Gulf and Pacific coasts and throughout widespread inland areas of the United States. In addition, an intensive program of development drilling was carried on to bring newly discovered fields to optimum production levels as quickly as economically possible. In these programs 797 net wells were drilled with these results:

	1967	1966
Exploratory Wells		
Drilled	134	161
Successful	27	39
Development Wells		
Drilled	663	611
Successful	606	534

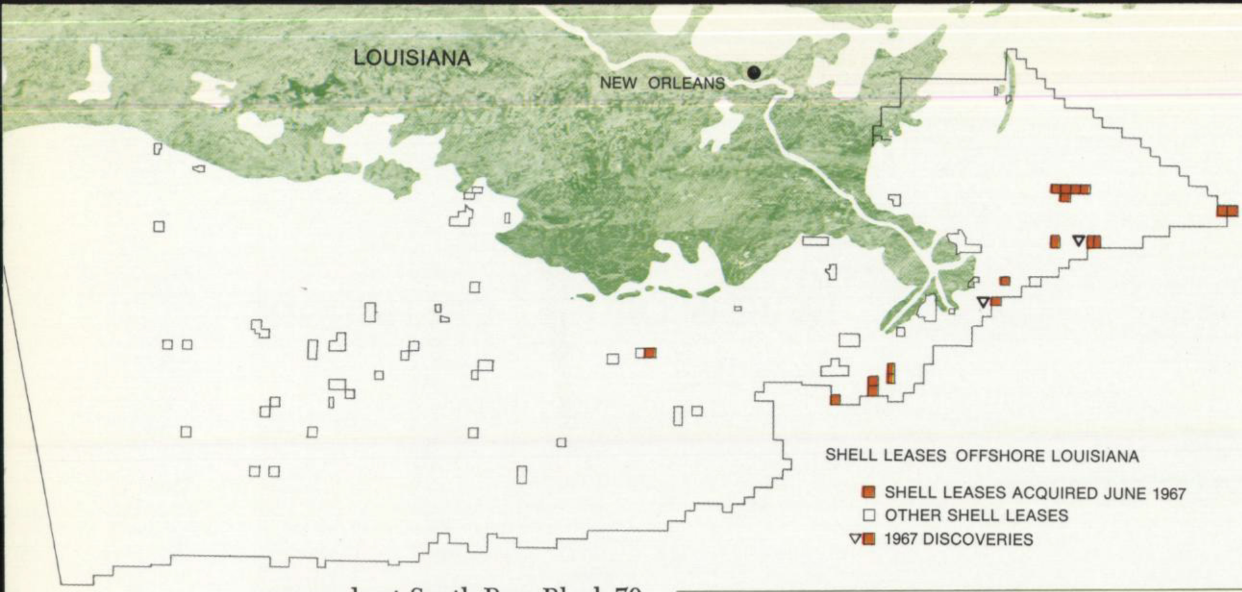
OFFSHORE OPERATIONS

The Company maintained its leading position in domestic offshore operations. It was first by such measurements as total investment, volume of production, acreage under lease, number and size of permanent platforms installed, and depth of water in which operations were conducted. The increasing importance to the Company of offshore production is illustrated by the table above.

Louisiana The major portion of expenditures and efforts was concentrated off the coast of Louisiana. In June, federal leases on 18 tracts covering 80,733 acres were purchased at a cost of $101.8 million. The table on page 8 shows the results of the investment in this area.

Exploratory drilling on the acreage acquired in June was begun within two weeks after the sale. By year-end significant oil accumulations had been discovered on two prospects, and evaluation drilling was continuing on other prospects.

The two promising discoveries


LOUISIANA
NEW ORLEANS
SHELL LEASES OFFSHORE LOUISIANA
🟥 SHELL LEASES ACQUIRED JUNE 1967
☐ OTHER SHELL LEASES
▽🟥 1967 DISCOVERIES

LOUISIANA OFFSHORE INVESTMENT AND PRODUCTION

	1967		Cumulative through 1967	
	Shell	Approx. % of Industry	Shell	Approx. % of Industry
Capital Investment				
Lease Bonuses—Million $	102	20	258	12
Total Incl. Bonuses—Million $	202	18	940	12
Net Production				
Crude & Condensate—Million Barrels	57	23	361	27
Nat. Gas—Billion Cubic Feet	114	8	772	11

were made at South Pass Block 70, a 5,000-acre lease near the mouth of the Mississippi River, and at Main Pass Blocks 289 and 290, farther to the east. By year-end, a permanent drilling platform for development of the Main Pass discovery was in place, and additional platforms were being fabricated for installation in 1968.

Development of leases acquired off Louisiana in previous years also continued at a rapid pace, with an average of 13 rigs in operation during the year. Five platforms were installed on these leases, one at a record depth of 340 feet of water in South Pass Block 62. They increased to 31 the number of major platforms installed since 1964.

Natural gas sales from areas off Louisiana continued to grow. Deliveries were begun in November from the West Delta Block 105 field, with volume scheduled to average 62 million cubic feet per day after the nearby Block 133 field is connected in the first half of 1968. Arrangements were completed for deliveries to start early in 1968 at an average rate of 70 million cubic feet per day from fields in the Eugene Island and South Marsh Island areas, and late in 1968 at a rate of 150 million cubic feet per day from fields in the South Timbalier and Ship Shoal areas.

Texas Development of offshore Texas gas fields in 1967 was at a slightly slower tempo than in 1966. Deliveries were started at the rate of 55 million cubic feet per day (Shell's share) from the High Island Block 160 (Den) field and at the rate of 120 million cubic feet per day from five fields on state leases off Matagorda County. Production of gas from Federal Block 288 (Buccaneer) field was increased by 75 million cubic feet per day to over 175 million cubic feet per day.

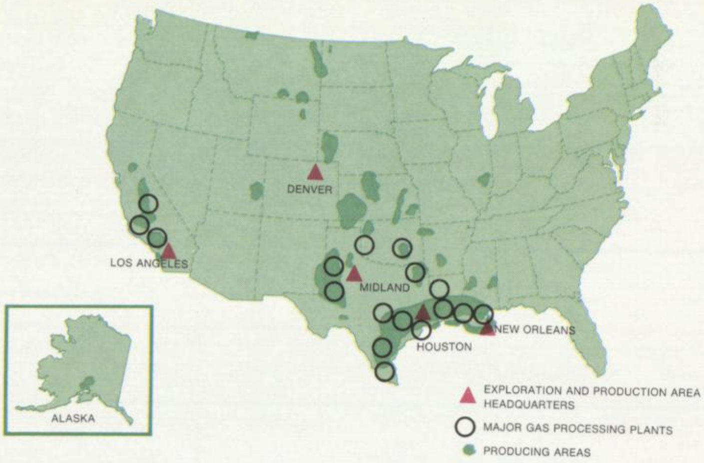
Alaska At the Middle Ground Shoal field in Cook Inlet, where Shell is the operator and has a one-third interest in some 11,000 acres, Shell's share of production rose to over 7,000 barrels per day. A second platform was installed last summer, and by year-end two wells had been completed, each testing more than 4,000 barrels per day.

West Coast Development of the seaward extension of the East Wilmington field off Long Beach, California, was carried on by THUMS, a company in which Shell and four other oil companies have equal ownership. At year-end 18 rigs were operating from four drilling islands, and Shell's share of gross production reached 11,000 barrels per day.

ONSHORE OPERATIONS

Onshore programs of exploration and development were carried on in many widely scattered areas of the United States. The trend in these operations has been toward finding and developing hydrocarbon accumulations at ever greater depths. This was exemplified by a discovery on the Pelahatchie prospect in Rankin County, Mississippi. The well flowed oil at a rate of over

Below left • Supplemental recovery facilities, such as this waterflood plant under construction in California, add substantially to crude oil production.


DENVER
LOS ANGELES
MIDLAND
HOUSTON
NEW ORLEANS
ALASKA
▲ EXPLORATION AND PRODUCTION AREA HEADQUARTERS
○ MAJOR GAS PROCESSING PLANTS
● PRODUCING AREAS

2,000 barrels per day from below 17,000 feet. A confirmation well was being drilled at year-end.

The most significant onshore development programs last year were in the deep gas fields in the Delaware-Val Verde basins of west Texas and in the Tallahalla Creek oil field in Mississippi. From five to ten drilling rigs were active throughout the year in the west Texas deep gas fields. In one of them, the JM field, a well was completed with a calculated open flow potential of 850 million cubic feet of gas per day. This was a record for the Delaware-Val Verde basins, the name given to a geologic province extending from Val Verde County, Texas, northwestward into southeast New Mexico. In the Tallahalla Creek oil field a three-rig drilling program was maintained throughout the last half of 1967. By year-end, eight wells had been completed at depths of around 16,000 feet, and production was 3,400 barrels per day.

SUPPLEMENTAL RECOVERY

Production obtained from many older fields by supplemental recovery operations accounted for 13 percent of total net liquid hydrocarbon production last year. Thermal recovery production in California was in excess of 20,000 net barrels per day at year-end. In the Slocum field of Anderson County, Texas, injection was begun on the state's first large-scale steam drive project. Production response has been most encouraging. Although thermal recovery of oil is of rising importance, conventional water flooding is still the Company's main supplemental recovery process. Major waterflood projects were started or expanded in California, Louisiana, Montana, Oklahoma, and Texas.

NATURAL GAS

Sales The contribution of natural gas to revenues continued to increase. Revenues from natural gas sales in 1967 amounted to $135.9 million, up 12 percent over the 1966 figure. Sales volume was 2.12 billion cubic feet per day, up 12 percent.

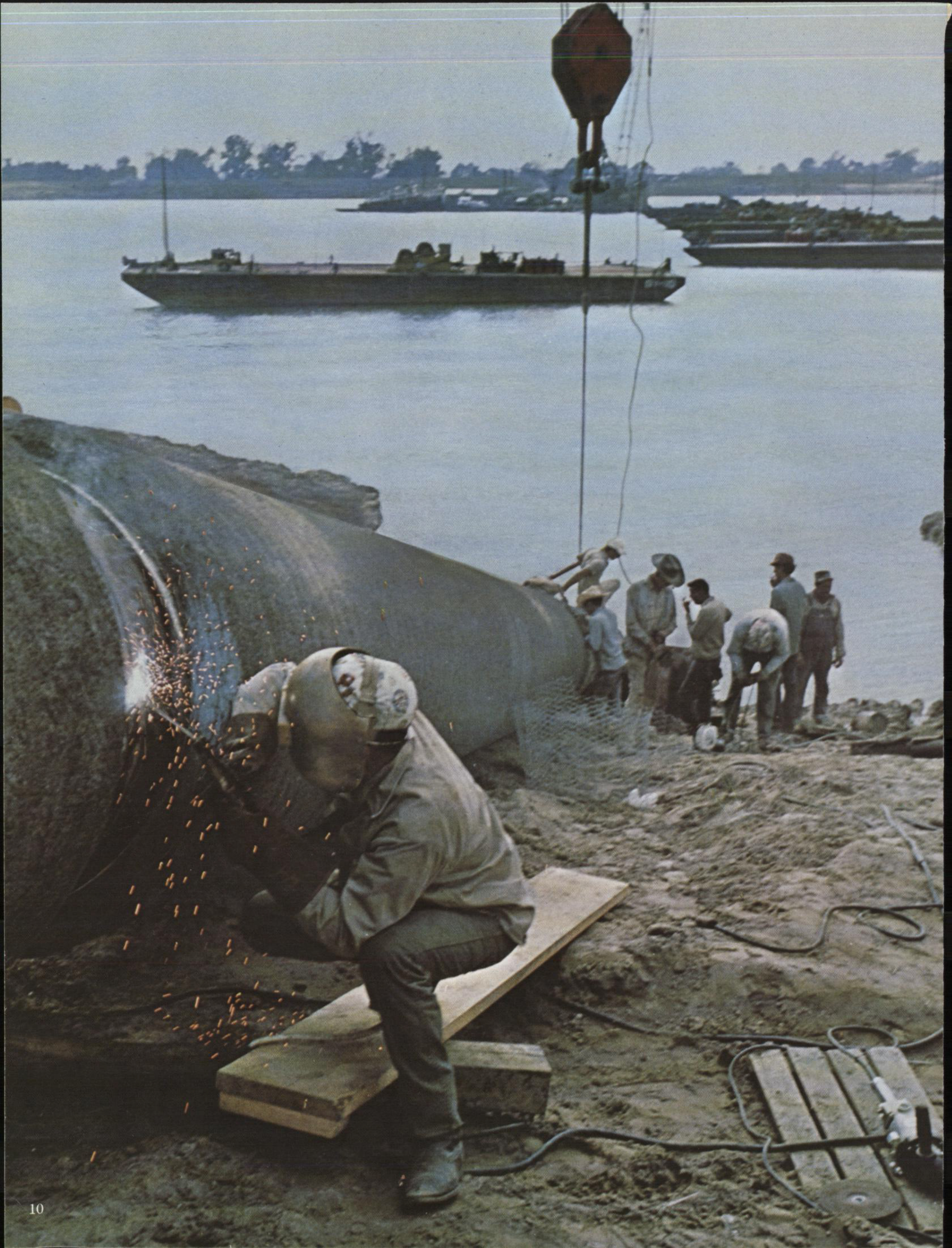
The Company's experience in the marketplace demonstrates a continuing high level of demand for gas. However, the Federal Power Commission has adopted the policy of "holding the price line" on all new sales of gas sold in interstate commerce for resale. This "price line" is at or below the levels prevailing in 1960-62, although costs have increased since then. Moreover, increases in rates permitted by contract are now under review by the F.P.C. and the courts. The low prices imposed by the F.P.C. on new sales, coupled with the uncertainty regarding the extent to which rate increases may be retained by the producer, have had a deterrent effect on the gas producing industry generally. In some areas this effect can be reduced or avoided by making sales within the state where the gas is produced. The Company has pursued with considerable success a policy of making intrastate sales where practical.

Red Snapper Project Certification of the Red Snapper pipeline project, which has been mentioned in previous Annual Reports, was rejected by the F.P.C. Shell had a 27-percent interest in this proposed offshore Louisiana natural gas gathering system; the remaining interests were held by 28 other south Louisiana producers. With the F.P.C. denial of this project, Shell proceeded to complete arrangements for sales of its gas to pipeline companies.

Natural Gas Liquids The rise in output of natural gas has been accompanied by a similar growth in production of natural gas liquids. To process the increased volumes, projects to build new gas plants or modify existing facilities were completed or in progress last year in California, Louisiana, Mississippi, Oklahoma, and Texas. Production of natural gas liquids averaged 54,000 barrels per day, nearly twice the volume of 10 years ago. Last year's record production was achieved despite prolonged curtailment of liquid processing because of fire damage at the large 80-percent-owned Houston Central Plant.

RESEARCH

The pioneering research and development programs in thermal recovery, which have been successfully implemented in the past, were extended still further. A research program has been initiated in a depleted Mid-continent oil field to test a recovery technique using chemical additives to flood water. Other continuing research programs involve new technology in supplemental recovery and marine operations.



MTM MANUFACTURING · TRANSPORTATION & SUPPLIES · MARKETING

MANUFACTURING

Intakes of crude oil and volatiles to refineries set a record for the seventh successive year, averaging 795,000 barrels per day, up 8 percent over 1966. Most manufacturing facilities operated at virtually full capacity, and several refineries set intake records for sustained periods.

Expansion and Modernization

Contributing to the overall record performance was the operation of facilities completed late in 1966 and early in 1967 at the Martinez, California, and Norco, Louisiana, refineries. At Martinez, an enlarged modern, fully integrated refinery, including a hydrocracker, has replaced facilities which had become obsolete. At Norco, the new processing units, consisting of hydrocracking, catalytic reforming and hydrogen generation facilities, which provide necessary gasoline manufacturing capacity, were fully integrated into Shell's overall manufacturing and supply complex and operated at or near design rates. The 1967 and the pre-expansion rated distilling capacities of each refinery are compared in the table at the top of the next column.

Rated Capacity, barrels daily

Refinery	1967	1964
Anacortes	84,000	68,000
Ciniza	14,000	12,800
Houston	155,000	138,000
Martinez	86,000	55,000
Norco	170,000	116,000
Odessa	24,500	22,600
Wilmington	83,000	83,000
Wood River	194,000	194,000
Total	810,500	689,400

Shell's sustained emphasis on profitable growth in the marketplace and the resulting increase in demand for products form the basis for the Company's continuing refinery expansion program. Last year the program was centered on the Wood River, Illinois, Refinery, where a major construction project comprises a 167,000-barrel-per-day crude distilling/flashing unit and a 33,500-barrel-per-day hydrocracker, plus hydrogen generation, catalytic reforming and other associated facilities. This project will increase the refinery's intake capacity by over 26 percent and the output of more valuable light products by an even greater percentage.

The installation of additional conversion capacity in the new refining facilities continues the trend to reduce the manufacture of lower-valued residual products and to increase the relative yields of more valuable motor gasoline and aviation turbine fuels. This trend is illustrated in the table below.

REFINED PRODUCTS MANUFACTURED—THOUSAND BARRELS DAILY

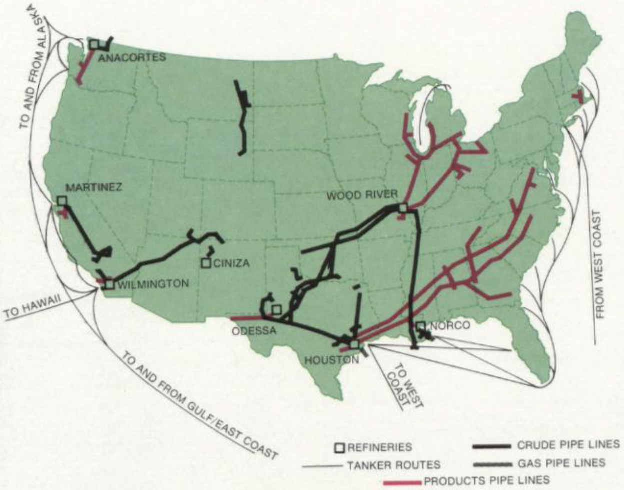
	1967	% yield	Pre-expansion (1964)	% yield
Gasolines	409	50	333	47
Jet and Light Fuels	229	28	196	28
Heavy Fuels	74	9	71	10
Other products	112	13	97	15
Total	824	100	697	100

Pollution Control In both old and new manufacturing facilities, the Company continued to use advanced techniques for environmental conservation and for reduction of sulfur in fuel products. The Company's capacity for treating refinery throughputs for sulfur removal, expressed as a percentage of total intakes, is the highest in the industry.

Research Research and development related to oil products resulted in several advances and innovations in lubricants, greases and asphalts for automotive and industrial use. Better and more economical additives were developed for major fuel and lubricant applications. Research on advanced aviation lubricants was accelerated to take advantage of new opportunities in this growing and technically demanding market.

Oil refining processes continued to receive substantial research and development support. Research on the manufacture of oil products from unconventional sources—coal,

A welder joins lengths of 40-inch pipe to be laid below the bed of the Mississippi River in construction of Capline, the nation's largest crude oil pipeline.



shale, and tar sands—was intensified. Significant improvements were made in the Shell hydrocracking process, an important refining technique for converting low-valued residuals into gasoline. Use of hydrocracking for jet fuel and lubricating oil manufacture was also developed. Another major conversion process, catalytic cracking profited from the application of new catalyst developments. Advanced instrumentation and electronic computer technology was applied for control and automation of refining processes.

TRANSPORTATION AND SUPPLIES

Large investments were made in the sustained effort to minimize costs by maximizing the efficiency of transportation facilities and by increasing their capabilities to move ever-greater volumes of petroleum. The program included four major crude oil pipeline projects. Three of them were under the direction of Shell Pipe Line Corporation and made up the largest expansion in its history.

Shell Pipe Line, which moves most of the Company's crude oil, operated its facilities at virtual capacity. The 8,927-mile system, which includes partially owned facilities and those owned by others, carried a record 163.8 billion barrel-miles of hydrocarbons, up 2 percent over 1966. As a result of operating economies and greater use of larger, more efficient lines during the past decade, operating cost per barrel-mile in 1967 was 10 percent below what it was in 1957.

Crude Oil Pipeline Expansions

Construction of Capline, Shell Pipe Line's largest project, was begun in midyear at six locations along its 630-mile route from Louisiana to southern Illinois. Shell Pipe Line has a 14-percent interest representing an investment of about $20 million in the multicompany line and will be the operator. On completion in 1968, the 40-inch system will have a capacity of 417,000 barrels per day. Its design will permit expansion to a million barrels per day.

In Louisiana, 68 miles of 16-inch line were laid for Shell Oil for the movement of 100,000 barrels per day of crude oil from offshore fields to a terminal at Gibson.

Capacity of the 450-mile, 24-inch trunk line of the partially owned Rancho system, which links producing areas of west Texas and New Mexico with Gulf Coast refineries, was increased by 100,000 barrels per day to 370,000 barrels per day.

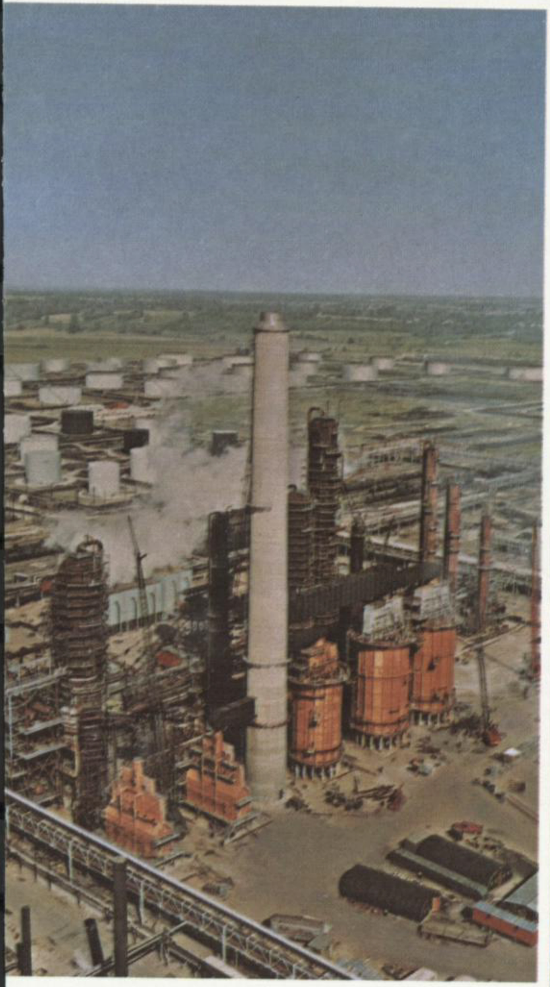
In California, Shell Oil completed the expansion of the crude oil line from Bakersfield to Caliola and the construction of a new 18-inch connection to Coalinga. The added capacity is needed to move the increased volume of crude oil now being produced by supplemental recovery projects in the San Joaquin Valley.

Terminals Storage capacity for finished products at marine and pipeline terminals was increased by almost 900,000 barrels, including new terminals at Collins, Mississippi; Selma, North Carolina; and Oakland International Airport, California.

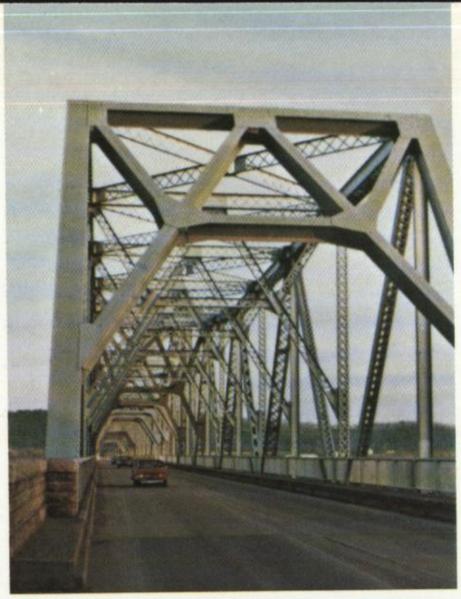
Railroad Cars Nearly 200 railroad cars were purchased or ordered for the transportation of Shell chemicals and liquefied petroleum gas. The Company-owned rail car fleet now totals 1,500, while a much larger number is leased.

Research and Engineering New techniques for laying pipe in deep water were developed by Shell Pipe

Progress of the refinery expansion and modernization program is illustrated by the hydrogen generation and hydrocracking complex at Norco (top right) and the crude oil distilling unit (top left) and saturates gas plant (bottom right) under construction at Wood River.



Line. Application has been made for a patent on a "bending shoe" designed to turn a pipeline upward so as to connect it to an offshore platform. The device has been used successfully in laying a line between the South Pass Block 62 field and the Delta Pipe Line in 340 feet of water, a record depth for connecting a pipeline and an offshore structure.



Top • GUARDKOTE® 250, Shell's new surfacing material, is being used increasingly to protect decks of bridges, exemplified by the Rip Van Winkle bridge across the Hudson River.

Bottom • Expanded services for general aviation are gaining new customers in this fast-growing part of aviation.

Opposite page • The colonial type Shell service station is a popular, attractive style in many parts of the country.

MARKETING

The volume of sales of refined products attained a new high in 1967. The increase over the 1966 total was about 6 percent, substantially above the indicated gain of 4 percent for the oil industry. The Company increased its share of the U.S. market to about 7.6 percent.

Revenues Dollar revenue from sales of refined products was approximately 7 percent higher than in 1966. Average realized unit revenue increased about 1 percent as a result of a slight improvement in prices of almost all products. The unit cost of marketing operations was reduced, largely as a result of close control of distribution expenses and a further rise in average service station throughput.

Automotive Gasoline Sales of automotive gasoline, the Company's largest volume product, increased more than 7 percent over 1966, compared with a gain by the industry of about 3 percent. The rise in the sales of premium gasoline also exceeded that of the industry, as was the case in the previous five years. The Company's increase last year was over 8 percent versus 5 percent for the industry. Dollar revenue from automotive gasoline sales was up 8 percent for the year and unit proceeds improved about 1 percent, reflecting a slight rise in the nationwide average price level. Shell's share of the nation's automotive gasoline market reached a new high of about 8.5 percent.

These gains were attributed to the further development of high-volume, profitable new service stations in established markets and in a few new markets and to generation of more business through existing direct and jobber service stations. An example of the Company's attractive new service stations is shown on the cover of this report. The Company also continued to relinquish substantial numbers of low-volume, unprofitable or only marginally profitable stations, while concurrently modernizing selected older productive units.

Sales promotional activities were expanded to meet the intensified competitive conditions prevailing in service station retailing. Dealer and station employee training programs, improved merchandising methods, and campaigns to develop wider use of credit cards were intensified and expanded.

Aviation Fuels Jet fuel continued to have the fastest sales growth of any refined product for both Shell and the oil industry. Volume of aviation fuel sales and revenues both reached new highs, gaining 15 percent and 13 percent, respectively, over 1966, as the Company maintained its position as the leading supplier of fuels and lubricants to the commercial air transport industry. At the same time, Shell continued to increase its sales to airport facilities serving general aviation, currently one of the most rapidly expanding segments of aviation.

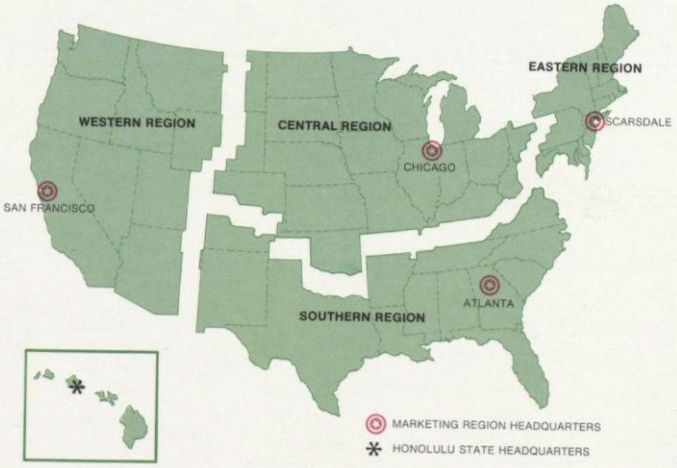
Liquefied Petroleum Gas Sales volume of liquefied petroleum gas rose sharply in 1967. Shell's share of the market again attained a record level. Unit prices for propane continued at all-time high levels.

Distillates, Heavy Fuels, Lubricants and Asphalt The sales volume of distillates edged up 1 percent, while, as a result of a rise in spot cargo sales, heavy fuels registered a gain of 7 percent.

The Company's ratio of sales of motor oil to gasoline declined again last year, a trend prevailing in the industry for nearly two decades. Although the sales volume of Shell motor oil was lower than in 1966, revenue remained relatively stable because of increases in sales of premium Super Shell motor oil. The lower volume of motor oil sales was the principal contributor to a decline approaching 9 percent in the Company's total lubricants sales volume.

Asphalt sales also declined, mainly as a result of East Coast import restrictions and a 168-day strike at the Sewaren, New Jersey, Plant, which has an important storage and blending facility for this product.

Other Highlights The new high performance Shell TORNUS® Oil 40 continued to enjoy good demand. It excels in meeting the increasingly stringent engine lubricant requirements of the nation's railroad locomotives.



The new GUARDKOTE® 250 resinous mortar mix overlay gained greater recognition in the highway industry as the outstanding means for improving skid resistance and for protecting decks of bridges from the damaging effects of de-icing chemicals.

The services available to holders of Shell credit cards continued to be expanded. Shell credit cards are now honored by three leading car rental concerns — Hertz System, Inc., Avis Rent-A-Car System, Inc., and National Car Rental System, Inc.—and by hotels and motor inns affiliated with Sheraton Corporation of America and Master Hosts Motor Hotels.

After extensive study it was decided to introduce a Shell-branded line of tires to meet the needs of the rapidly growing, profitable automotive replacement tire market. The addition of Shell tires to the already successful line of Shell batteries and filters is planned to take place in the second half of 1968.

® Trademark Shell Oil Company

CHEMICAL

The composite sales volume of the six operating divisions which comprise Shell Chemical Company again reached a new high. The market trends by product lines, however, were mixed. While markets and prices were firm in many cases, oversupply and weakened price structures developed in other areas. Chemical sales revenues totaled $437.1 million, a 9 percent increase over the 1966 figure.

Investments made last year in chemical plants amounted to $59 million. Expenditures for manufacturing facilities have totaled $178 million in three years, raising Shell's gross chemical plant investment to $505 million at the end of 1967.

Agricultural Chemicals Division Record sales revenues were again achieved as demands for the Division's products remained at high levels and the campaign of introducing Shell-branded products to major crop and consumer market areas moved ahead.

Increased acreages planted in corn in the Midwest resulted in continuing heavy demand for aldrin for soil insect control. Sales of PLANAVIN® Herbicide for preemergent weed control on cotton and soybeans increased substantially in the 1967 season. Demand for AZODRIN® Insecticide for control of cotton pests was heavy during the season, although cotton acreages were down to their lowest level in over ten years.

In the field of consumer products, NO-PEST® Insecticide Strips were introduced nationwide through Shell stations and supermarkets with an extensive advertising and publicity program. This product, which is very effective for the control of flies, gnats and other small flying insects, was accorded rapid public acceptance.

In the animal health field, deworming medicines for swine and dogs, marketed under the ATGARD® and TASK® trademarks, respectively, continued their significant market penetration. Sales of the unique Shell Pet Collar also increased. These plastic collars incorporate VAPONA® Insecticide, which effectively rids household pets of fleas.

Ground was broken on a 500-acre site near Mobile, Alabama, for construction of facilities to manufacture an insecticide, GARDONA®, a new development from the Biological Sciences Research Center at Modesto, California. The active ingredient is a phosphorus-based compound which is particularly effective in protecting fruit orchards from destructive insects.

Ammonia Division Sales rose as the Division's marketing position was strengthened by a further increase in the number of Company-owned outlets. The Division carried forward a program of broadening its marketing activities to keep pace with changes in West Coast agriculture resulting from advances in technology and new patterns in land use.

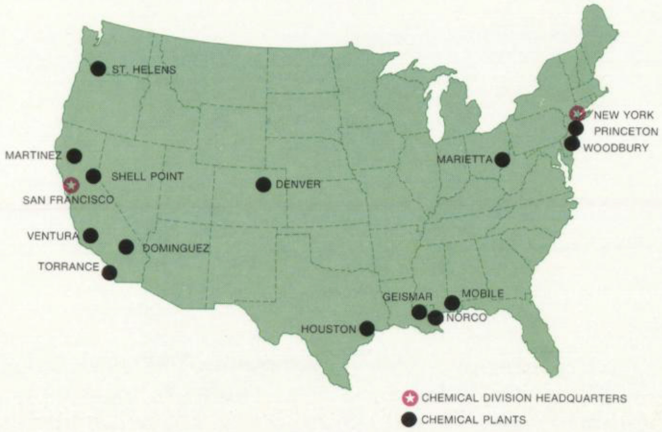
The new St. Helens, Oregon, ammonia and urea facilities were operated at design capacity. As a result of the Company's overall favorable supply position it was possible to close an economically and technologically obsolete ammonia unit at the Shell Point Plant in California.

Industrial Chemicals Division The trend toward higher revenues continued, although volume of sales of several products was affected by slowdowns in some sectors of the economy. Outstanding results were achieved, nevertheless, in a few product areas. In the case of glycerine, for example, not only were sales volumes higher, but prices also improved over the very depressed levels of recent years.

Shipments of NEODOL® detergent alcohols from Houston in-

Left • Completion late last year of the Geismar Plant greatly increased production of NEODOL® alcohols, used to make improved detergents.

Right • Ethylene, ethylene alkylate and high-purity propylene are manufactured in this new petrochemicals complex at Norco.



creased substantially. Growing demand for NEODOL detergent alcohols and ethylene oxide and its derivatives will be satisfied as production expands at the Geismar, Louisiana, Plant, major units of which were completed around the year-end. These facilities embody process designs originated at the Emeryville Research Center of Shell Development Company.

Ground was broken at the Houston plant for construction of a major facility to make straight-chain alcohols used in the manufacture of vinyl plasticizers which, in turn, go into vinyl formulations for upholstery, wall coverings and a wide variety of commercial products. Completion is scheduled for the fall of 1968. This project is based on new technology which also originated at Emeryville.

Petrochemicals Division Record sales were attained in 1967. Included in the sales volumes were supplies of products from the new ethylene facilities at Norco which began production in the third quarter. Besides ethylene, these units produce high purity propylene and ethylene alkylate. The latter is a high-octane blending component for use in Super Shell gasoline.

Sales of aromatics were higher than in 1966 despite a drop in benzene proceeds caused by a weakening in the markets in the latter part of the year and the posting of lower prices. Sales of sulfur and sodium sulfonates were maintained at high levels throughout the year.

The paraxylene plant at Houston was completed in December. Paraxylene is used in the manufacture of polyester fiber and film.

Plastics and Resins Division

Sales revenues of the Division declined slightly, reflecting a general slowdown in demand in the first half of 1967.

Reformulation of EPON® resin solutions, used primarily by the paint industry, enabled users to conform with new air pollution standards related to solvent vapors. Two new EPON resins were introduced. They provide improved product performance in electrical and automotive applications.

Significant growth was realized in sales of polypropylene. This product gained greater acceptance for making sandbags, industrial sacking and carpet backing.

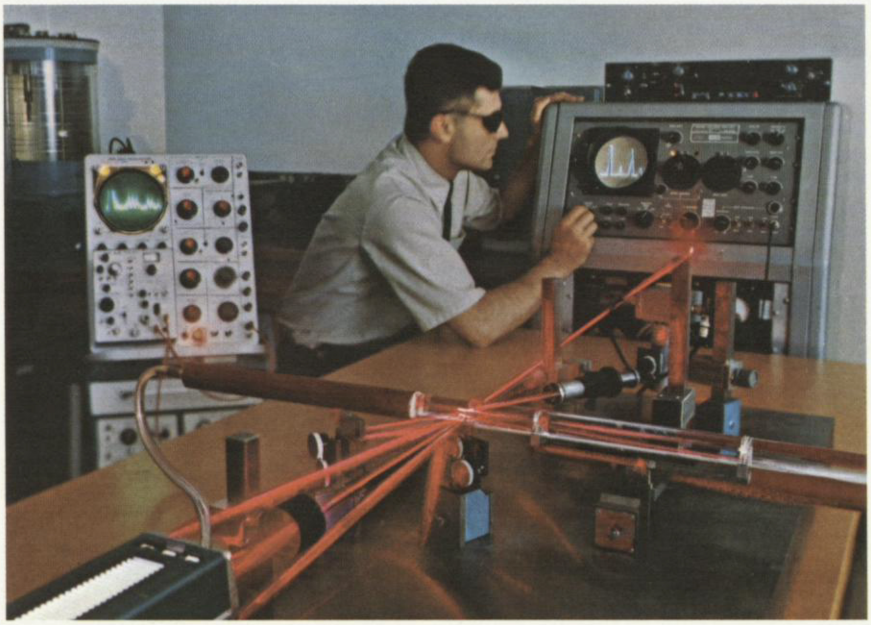
Construction of a polystyrene plant was started at Marietta, Ohio. This unit will meet demands in appliance, automotive and packaging markets, and is located to provide efficient service to customers in these industries.

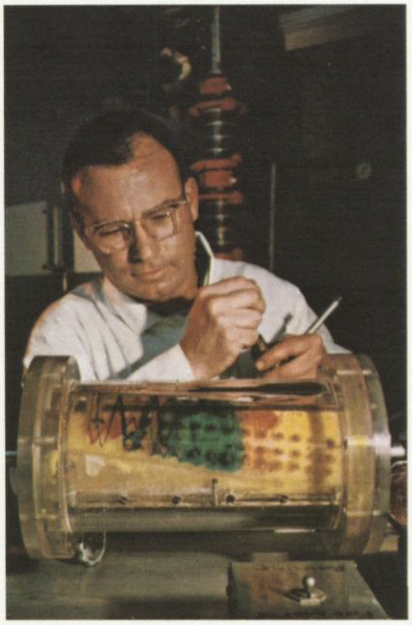
Synthetic Rubber Division Sales volume of rubber and monomers reached a new high in 1967 and would have been higher but for the prolonged major strike in both the rubber and automotive industries. Sharply lower prices in all major product lines, however, resulted in sales revenues below those of the preceding year.

Thermoplastic rubbers were well received in selected markets and showed promise of acceptance and growth in a diverse number of end-uses, including those in adhesives, coatings, footwear, packaging, and the pharmaceutical field.

Below • Construction of this paraxylene plant at Houston was completed late last year.

RESEARCH





Left • At the Emeryville Research Center the flow of liquids in pipe is measured with the aid of a laser.

Right • A specially constructed vessel is used at Emeryville to observe flow patterns in the extrusion of plastics.

Most of Shell's research and development programs during 1967 were in direct support of the functional operations in Exploration and Production, M-T-M (Manufacturing, Transportation and Supplies, and Marketing) and Chemicals. The results of some of this functional research are mentioned in other parts of this report.

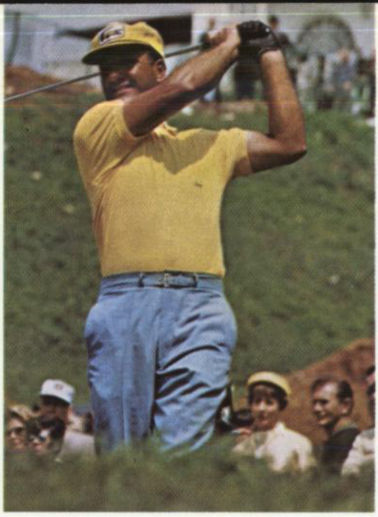
The functional research is backed by studies in science and engineering intended to provide results of general use. For example, a way has been found to enhance greatly the capabilities of metals to combine with other elements in ways which have not been possible before. This invention may lead to new ways of preparing catalysts, and to new chemical and petroleum processes. Another example is a study of the way in which the ingenuity of scientists and the electronics of computers interact. This work is intended to capitalize more fully on the Company's expenditures on computers.

About two-thirds of Shell research is conducted in three laboratories operated by Shell Development Company. The rest takes place in nine laboratories linked to the operating functions of Shell Oil Company, Shell Chemical Company, Shell Pipe Line Corporation and SoniCo, Inc., a Shell Oil Company subsidiary. In 1967, the number of Shell people engaged in research totaled 2,700, or about 7 percent of Company personnel.

Consonant with the heightened interest of the public and all levels of government in air and water conservation, a department was established within Shell Development Company to coordinate Shell's nationwide efforts in this area.

The Company and a subsidiary of Shell Petroleum N.V. (formerly Bataafse Petroleum Maatschappij N.V.) have continued an arrangement whereby each will perform for and exchange with the other research services in the field of petroleum technology, chemicals and other fields.

STAFF SERVICES



De Vicenzo drives during a match at the Congressional Country Club on "Shell's Wonderful World of Golf."

EMPLOYEE RELATIONS

Management continued to give high priority in 1967 to the key tasks of attracting and developing outstanding employees, and creating an environment in which they can best contribute to the Company's dynamic growth.

Competition for qualified manpower at all levels continued to be keen. However, Shell was successful in recruiting a large number of well-qualified graduates from universities across the nation, including 124 Ph.D.'s—an unusually large number for a single company. In addition, educational programs to foster the development of employees with potential for greater responsibilities were extended.

The number of employees at the end of the year was 38,330, or 1,272 more than a year earlier, due essentially to expansion of operations. Retirements during the year totaled 636, bringing to 11,651 the number of those who have retired on pension since the Shell Pension Plan began in 1938.

For 1967, the cost of wages, salaries and benefits was $432.5 million, $37.9 million more than the previous year. This rise resulted in part from the expansion of operations and in part from our continuing to maintain a sound competitive position in respect to salaries, wages and benefits.

The number of persons participating in the Shell Stock Fund at the end of 1967 was 16,021. This Fund is part of the Shell Provident Fund, which gives employees an opportunity to save on a regular basis. Eligible participants can direct that all or part of the Company's contributions to their Provident Fund accounts be invested in the common stock of the Company. During 1967, the amount of Shell Stock Fund investments was $18.3 million, representing 272,217 shares, of which 157,600 shares were bought on the market, 106,300 were authorized but unissued shares purchased from the Company, and 8,317 were shares transferred among individual accounts within the Shell Stock Fund. At year-end, the Fiduciary held for Stock Fund members 1,519,591 shares of the Company's common stock; the number of shares outstanding at that time was 61,168,803.

As reported in last year's Annual Report, labor agreements running through 1968 were negotiated early in 1967 at most unionized locations. However, after protracted negotiations at the Sewaren, New Jersey, Terminal, the Oil, Chemical and Atomic Workers International Union (AFL-CIO), representing some 340 employees, struck this Plant on June 16. The strike, which largely involved the matter of improving the efficiency of operations, was settled on December 2 on a satisfactory basis.

PUBLIC RELATIONS

For years Shell has been deeply involved in the nation's education system through its motion picture library, the largest in the oil industry. Shell films are popular teaching aids because of their clear exposition of subjects in the fields of aviation, science, traffic safety and food and health. As new titles have been added, the emphasis has shifted toward problems related to man's environment. The newest film, added in 1967, is "The River Must Live," which shows how man's carelessness can destroy a river and how modern conservation techniques can restore its life. The film exemplifies Shell's concern in the area of air and water conservation and has been received enthusiastically by local, state and national government officials who saw it in special preview showings.

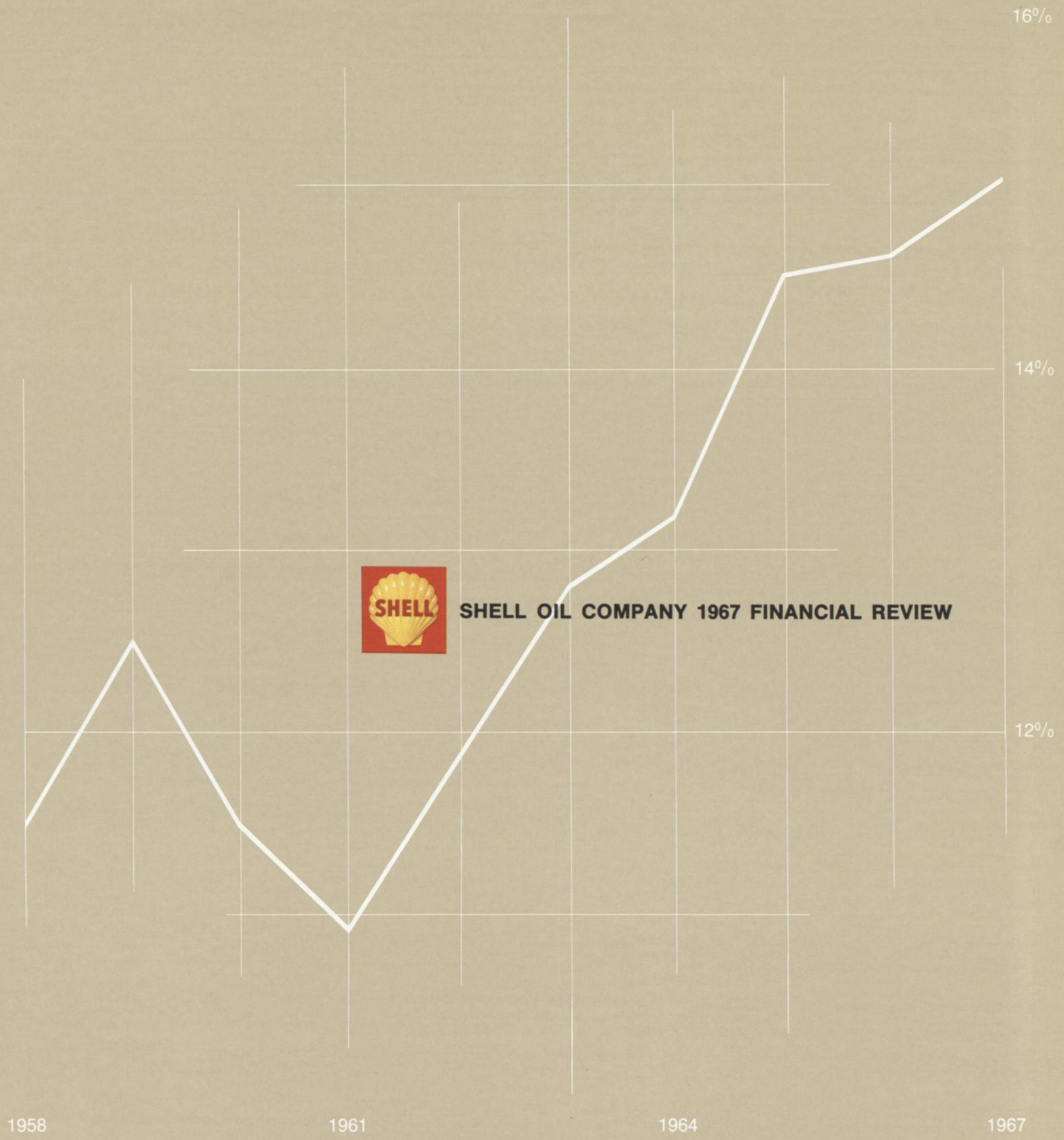
"Shell's Wonderful World of Golf," which has run longer and been viewed more widely than any other filmed golf show on television, was presented for the sixth successive season in 1967, and the films were produced for the seventh season which is now in progress.

Continuing the Company's participation in efforts designed to ameliorate the problem of traffic safety, Shell again in 1967 sponsored the National Drivers Test on television prior to the Memorial Day weekend. Films of one of the National Drivers Tests and 31 of the "Shell's Wonderful World of Golf" matches are included in the Shell library and, like all of the films, may be obtained on free loan by schools, clubs, and other interested organizations.

PURCHASING

Important savings were effected in connection with the large expenditures for materials and services required for the Company's operations. Contributing substantially to this result was the procurement reporting system developed with the Company's Information and Computer Services Organization.

SHELL OIL COMPANY 1967 FINANCIAL REVIEW



Net Income as a Percentage of Shareholders' Investment

Shell Oil Company and Subsidiary Companies

STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR 1967	YEAR 1966
Revenues		
Sales and other operating revenue	$3,657,739,000	$3,381,523,000
Dividends, interest and other income	16,435,000	16,348,000
	3,674,174,000	3,397,871,000
Costs and Expenses		
Purchased oils and chemicals	1,256,744,000	1,169,760,000
Costs and operating expenses	723,199,000	649,296,000
Selling, general and administrative expenses	352,415,000	324,094,000
Income, operating and consumer taxes	741,237,000	709,917,000
Depreciation, depletion, amortization and retirements, including dry holes	284,986,000	266,504,000
Interest on long term debt	30,744,000	23,100,000
	3,389,325,000	3,142,671,000
Net Income: 1967—$4.66 (1966—$4.19) average per share outstanding during year	284,849,000	255,200,000
Retained Earnings at beginning of year	1,413,163,000	1,273,694,000
	1,698,012,000	1,528,894,000
Cash dividends paid: 1967—$2.10 (1966—$1.90) per share	128,280,000	115,731,000
Retained Earnings at end of year	$1,569,732,000	$1,413,163,000

The notes on pages 24, 25 and 26 are an integral part of these statements.

STATEMENT OF FINANCIAL CONDITION

	DECEMBER 31, 1967	DECEMBER 31, 1966
Assets		
Current Assets		
Cash	$ 48,164,000	$ 37,867,000
Short term securities, at cost approximating market	142,811,000	155,038,000
Receivables and prepayments	528,056,000	481,814,000
Owing by affiliated companies	10,609,000	8,833,000
Inventories of oils and chemicals	274,203,000	244,398,000
Materials and supplies, at average cost or less	30,842,000	30,936,000
Total Current Assets	1,034,685,000	958,886,000
Investments, Long Term Receivables, Etc.	41,678,000	40,152,000
Properties, Plant and Equipment, at cost, less accumulated depreciation, depletion and amortization	2,344,183,000	2,035,777,000
	$3,420,546,000	$3,034,815,000
Liabilities and Shareholders' Investment		
Current Liabilities		
Payables, accruals, etc.	$ 455,339,000	$ 396,274,000
Income, operating and consumer taxes	168,472,000	172,819,000
Owing to affiliated companies	8,674,000	7,681,000
Long term debt due within one year	2,000,000	7,000,000
Total Current Liabilities	634,485,000	583,774,000
Long Term Debt	718,721,000	553,107,000
Shareholders' Investment		
Common stock, authorized 80,000,000 shares, $1.00 par value, issued 1967—61,197,888 (1966—61,032,168) shares at stated value	227,775,000	227,609,000
Amount in excess of common stock stated value	271,157,000	259,976,000
Retained earnings	1,569,732,000	1,413,163,000
	2,068,664,000	1,900,748,000
Less: 1967—29,085 (1966—74,303) shares held in treasury, at cost	1,324,000	2,814,000
Total Shareholders' Investment	2,067,340,000	1,897,934,000
	$3,420,546,000	$3,034,815,000

The notes on pages 24, 25 and 26 are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. General

The financial statements include the accounts of Shell Oil Company and all its wholly owned subsidiary companies. The investment in Butte Pipe Line Company, a 60% owned subsidiary, is carried at equity in the underlying net assets. Investments in less than majority owned companies are carried at cost with dividends recorded in income as received; the excess of underlying equity in such companies over investment cost at December 31, 1967 was not material.

The Company and its subsidiaries continued in 1967 to have transactions, including the purchase, sale, and transportation of crude oil, petroleum and chemical products in the ordinary course of business, with subsidiaries of Royal Dutch Petroleum Company and The "Shell" Transport and Trading Company, Limited, parent companies of Shell Oil Company.

Sales revenue, operating and selling expenses, receivables and properties for 1966 have been reclassified to conform to bases adopted in 1967.

2. Income, Operating and Consumer Taxes

	1967	1966
Consumer Taxes		
Excise and sales taxes on products sold	$584,580,000	$559,888,000
Operating Taxes		
Real and personal property	42,768,000	36,555,000
Oil and gas production	30,257,000	28,338,000
Social security	12,330,000	11,567,000
Other	14,129,000	15,684,000
	99,484,000	92,144,000
Income Taxes		
Federal and other	57,173,000	57,885,000
	$741,237,000	$709,917,000

The Company's policy is to reduce federal income taxes by investment tax credits currently realized.

3. Shell Pension Plan and Shell Provident Fund

The Shell Pension Plan covers the regular full-time employees of the Company and its principal subsidiary, Shell Pipe Line Corporation. The 1967 pension expense under this Plan was $23,087,000 which includes provision to fully amortize prior service cost by the end of 1979. The Company's policy is to fund pension cost charged against income.

The Shell Provident Fund is a plan whereby every regular employee of the Company and its principal subsidiary may systematically save a permissible percentage of his salary or wages with a like contribution by the employing company for investment by the Fund. Eligible participants can direct that all or part of their employing company's current contributions be invested in the common stock of Shell Oil Company. In 1967, company contributions to the Fund totaled $24,255,000 which was charged against income.

4. Receivables

The receivables amounted to $487,817,000 at December 31, 1967 and $437,860,000 at December 31, 1966, after deducting allowance for doubtful accounts of $11,485,000 and $10,423,000, respectively.

5. Inventories of Oils and Chemicals

The Company follows the policy of charging to costs the highest of inventory carrying value, current cost of production, or purchases. The inventories of oils and chemicals are carried at resulting average cost or market, whichever is lower.

6. Properties, Plant and Equipment

	Gross Book Value	Accumulated Depreciation, Etc.	Net Book Value
	(Thousands of Dollars)		
Production properties	$2,506,998	$1,375,861	$1,131,137
Oil refineries	941,209	514,602	426,607
Chemical plants	504,902	261,504	243,398
Marketing facilities ..	573,188	196,689	376,499
Pipelines and other transportation facilities	272,731	148,624	124,107
Miscellaneous facilities	81,880	39,445	42,435
Total Dec. 31, 1967 ..	$4,880,908	$2,536,725	$2,344,183
Total Dec. 31, 1966 ..	$4,485,981	$2,450,204	$2,035,777

Depreciation, depletion and amortization of the capital cost of producing properties, both intangible and tangible, are provided for on a unit of production basis over the estimated recoverable oil and gas reserves. Intangible expenditures applicable to dry holes are charged to income currently. Other plant and equipment are depreciated on a straight line basis over their estimated useful lives.

Intangible development expenditures are deducted for federal income tax purposes as incurred; however, an amount equivalent to the tax effect resulting from the difference between such expenditures and the amortization charges determined on a unit of production basis is included as amortization. Additional depreciation is provided in the accounts in recognition of the tax effect of the difference between the amount of accelerated depreciation claimed in the federal income tax return and the depreciation reflected in the accounts. Based upon experience of the Company, nonproducing leasehold costs are amortized from the date of acquisition, giving due consideration to the effect of tax deductibility in the year of surrender.

7. Long Term Debt

	Dec. 31, 1967
Shell Oil Company	
Twenty-five Year 2½% Debentures, due 1971, after deducting $5,272,000 of debentures held in treasury	$ 42,770,000
4⅝% Sinking Fund Debentures Due 1986, after deducting $5,174,000 of debentures held in treasury	189,826,000
4½% Notes due 1990	150,000,000
5% Debentures Due 1991	150,000,000
5.30% Debentures Due 1992	150,000,000
Shell Pipe Line Corporation	
4.50% note payable to bank due 1968 and 1969	10,000,000
Term loans, at interest approximating prime bank rate, due in 1969	28,125,000
	720,721,000
Less amounts included in Current Liabilities as due within one year	2,000,000
	$718,721,000

Of the foregoing long term debt due after one year, $45,679,000 will be due in 1969, $15,000,000 in 1970, $48,042,000 in 1971, and $25,000,000 in 1972.

8. Incentive Stock Option Plans

At December 31, 1967, 373,500 shares of the Company's authorized but unissued common stock were reserved under the Plans, adopted in 1956 and in 1965, for sale to key employees, including executives. Prior to August 22, 1963, options were granted for terms not exceeding ten years at not less than 95% of the fair market value at the date of grant. Commencing August 22, 1963, options have been granted for terms not exceeding five years at not less than 100% of the fair market value at the date of grant. Generally, such options may not be exercised within eighteen months of the date of grant. Options granted after August 21, 1963, are by their terms not exercisable until after certain earlier options have been exercised or the time for their exercise has expired, as provided in the Internal Revenue Code of 1954, as amended, with respect to qualified stock options.

Changes during 1967 in options outstanding were as follows:

	Shares Under Option	
	1956 Plan	1965 Plan
Outstanding January 1, 1967 (of which 186,700 were exercisable)	128,300	119,400
Granted at average price of $66.78 per share	–	29,000
Exercised at average price of $45.01 per share	(47,000)	(7,800)
Outstanding December 31, 1967 (of which 164,900 were exercisable)	81,300	140,600

The 1956 Plan was terminated in 1965 without affecting outstanding options. Under the 1965 Plan the number of shares available for future options amounted to 180,600 at January 1 and 151,600 at December 31, 1967.

Under the 1956 Plan, options covering 484,700 shares have been adjusted (through reducing the purchase price of each share by 7.34%) to reflect the effect thereon of the distribution to the Company's shareholders of all Shell Canada Limited stock held by the Company on November 1, 1962.

9. Amount in Excess of Common Stock Stated Value

This amount was increased as follows during 1967:

Sale of 106,300 shares of common stock to Shell Provident Fund	$ 7,095,000
Sale of 54,800 shares of common stock to option holders upon exercise of options under the incentive stock option plans	2,364,000
Issuance to key employees of 4,620 shares of common stock as part of the incentive compensation award payment for the year 1966	299,000
Transfer of shares of treasury stock for acquisitions	1,423,000
	$11,181,000

10. Commitments and Contingent Liabilities

At December 31, 1967, Shell Oil Company and subsidiary companies had noncancellable leases and other contractual commitments with an average unexpired life of approximately 6 years covering service stations, office space, tankers and other facilities. For the year 1968, the minimum amounts payable (without reduction for related rental income) under such commitments having a remaining life of over one year are estimated at $66,000,000.

Shell Oil Company might be required under certain conditions to make payments under guaranty and other contractual arrangements entered into in connection with pipelines and other facilities used for handling the Company's products. At December 31, 1967, the contingent liability under such arrangements did not exceed $1,700,000 applicable to 1968 and a total of $41,400,000 for years subsequent thereto.

None of the companies had any commitments or contingent liabilities which, in the judgment of the Management, would result in losses which would materially affect their financial positions.

SOURCE AND DISPOSITION OF FUNDS

	67	66
Source of Funds	(MILLIONS)	
Net income	$284.8	$255.2
Depreciation, depletion, amortization and retirements	240.8	213.7
Dry hole costs (included in capital expenditures)	44.2	52.8
TOTAL FUNDS PROVIDED FROM OPERATIONS	569.8	521.7
Net increase in long term debt	165.6	137.6
Property sales, salvage, etc. (net)	25.6	19.8
Company shares sold less shares acquired	12.8	7.6
TOTAL	$773.8	$686.7
Disposition of Funds		
Capital expenditures including dry hole costs	$618.9	$564.0
Dividends paid	128.3	115.7
Other items (net)	1.5	2.4
Working capital increase	25.1	4.6
TOTAL	$773.8	$686.7

Opinion of Independent Accountants

TO THE SHAREHOLDERS OF SHELL OIL COMPANY:

In our opinion, the accompanying statement of financial condition, the related statement of income and retained earnings, and the statement of source and disposition of funds as shown above, present fairly the financial position of Shell Oil Company and consolidated subsidiary companies at December 31, 1967, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N. Y.
February 14, 1968

PRICE WATERHOUSE & CO.

TEN YEAR REVIEW OF FINANCIAL DATA

(dollars in thousands except per share amounts)

		67	66
Income and Dividends	Net income	$ 284,849	255,200
	Net income per share*	$ 4.66	4.19
	Cash dividends	$ 128,280	115,731
	Cash dividends per share*	$ 2.10	1.90
	Funds provided from operations (net income plus write-offs)	$ 569,835	521,704
Revenues	Sales and other operating revenue Refined products	$1,848,429	1,732,104†
	Chemical products	$ 437,086	400,676
	Natural gas	$ 135,906	121,250†
	Crude oil	$ 588,393	513,718
	Other operating revenue	$ 63,345	53,887
	Consumer excise and sales taxes	$ 584,580	559,888
	TOTAL	$3,657,739	3,381,523
	Dividends, interest and other income	$ 16,435	16,348
	TOTAL REVENUES	$3,674,174	3,397,871
Costs and Expenses	Income and operating taxes	$ 156,657	150,029
	Depreciation, depletion, amortization and retirements, including dry holes	$ 284,986	266,504
	Salaries, wages and employee benefits Salaries and wages	$ 326,819	296,987
	Employee benefits (including vacation, holiday and sick pay)	$ 105,643	97,607
	TOTAL	$ 432,462	394,594
	Number of employees at year end	38,330	37,058
Financial Condition at Year End	Current assets	$1,034,685	958,886†
	Current liabilities	$ 634,485	583,774
	WORKING CAPITAL	$ 400,200	375,112
	Properties, plant and equipment	$4,880,908	4,485,981†
	Accumulated depreciation, depletion and amortization	$2,536,725	2,450,204
	NET PROPERTIES, PLANT AND EQUIPMENT	$2,344,183	2,035,777
	Total Assets	$3,420,546	3,034,815
	Long term debt	$ 718,721	553,107
	Shareholders' investment	$2,067,340	1,897,934
	Shares outstanding (thousands)	61,169	60,958
	Number of shareholders	25,963	24,566
Capital Expenditures	Drilling and production (including dry holes)	$ 343,637	252,740
	Oil refineries	$ 61,612	113,551
	Chemical plants	$ 59,144	75,592
	Marketing facilities	$ 111,315	96,623
	Pipelines and other transportation facilities	$ 35,202	14,824
	Miscellaneous facilities	$ 7,977	10,645
	TOTAL	$ 618,887	563,975
Exploration and Production Expenditures	Oil and gas leases	$ 117,139	15,418
	Producing wells and equipment	$ 174,883	172,871
	Natural gas processing plants	$ 7,379	11,657
	Dry holes	$ 44,236	52,794
	Geological, geophysical and land expenses	$ 74,665	65,603
	Lease rentals	$ 10,022	11,390
	TOTAL	$ 428,324	329,733

**Per weighted average share outstanding each year adjusted for two-for-one stock split in 1959.*

***In addition, one Class "A" Common Share of Sh*

Shell Oil Company and Subsidiary Companies

65	64	63	62	61	60	59	58
234,031	198,190	179,852	157,675	140,358	144,588	147,418	128,583
3.85	3.27	2.97	2.60	2.32	2.39	2.43	2.12
103,194	90,798	78,658	66,636	66,636	66,631	62,088	60,573
1.70	1.50	1.30	1.10**	1.10	1.10	1.02½	1.00
487,446	437,508	401,523	359,058	334,212	345,608	342,807	323,148
,578,006	1,422,978	1,320,023	1,231,890	1,155,947	1,125,819	1,118,157	1,091,147
355,359	319,693	295,234	272,151	262,521	271,560	265,011	221,926
104,476	95,653	86,392	74,643	75,378	70,245	48,118	38,955
497,323	469,468	414,131	367,260	368,066	345,202	358,612	300,919
27,045	24,149	12,857	14,789	19,376	15,006	20,055	13,042
529,668	491,464	434,043	390,438	357,351	340,000	320,005	287,765
,091,877	2,823,405	2,562,680	2,351,171	2,238,639	2,167,832	2,129,958	1,953,754
13,041	11,169	11,943	8,959	8,978	10,650	10,001	8,143
,104,918	2,834,574	2,574,623	2,360,130	2,247,617	2,178,482	2,139,959	1,961,897
123,316	92,986	105,745	86,042	86,142	93,401	98,948	66,214
253,415	239,318	221,671	201,383	193,854	201,020	195,389	194,565
270,659	259,696	245,738	244,200	266,053	258,774	255,211	246,195
89,734	82,834	81,645	80,767	86,099	87,488	86,356	79,157
360,393	342,530	327,383	324,967	352,152	346,262	341,567	325,352
34,548	33,578	32,191	33,908	35,586	38,290	38,217	38,572
875,598†	773,914	798,128	669,730	682,842	599,169	607,841	564,888
505,136	420,968	362,405	301,650	303,948	282,276	308,722	265,150
370,462	352,946	435,723	368,080	378,894	316,893	299,119	299,738
,092,720†	3,704,588	3,403,284	3,261,080	3,092,547	2,912,786	2,713,970	2,516,309
,334,656	2,217,507	2,101,551	1,979,703	1,885,524	1,775,893	1,655,458	1,534,449
,758,064	1,487,081	1,301,733	1,281,377	1,207,023	1,136,893	1,058,512	981,860
,671,464	2,301,030	2,138,803	1,989,100	2,076,235	1,885,344	1,767,309	1,648,271
415,535	267,424	273,219	283,123	295,239	200,002	133,478	143,342
,750,793	1,612,638	1,503,179	1,404,327	1,477,048	1,403,066	1,325,109	1,239,779
60,753	60,561	60,496	60,548	60,580	60,573	60,573	30,287
23,917	23,669	23,070	22,183	20,403	20,018	19,730	19,307
253,812	253,401	180,058	214,281	179,685	199,979	207,345	143,352
122,165	78,296	25,596	11,787	17,312	26,800	24,516	33,695
43,518	25,903	8,221	20,671	39,795	18,014	21,268	11,410
81,248†	43,605	28,108	27,105	24,777	29,726	18,518	16,920
22,854	21,492	4,680	4,076	5,617	6,589	5,347	13,618
7,064	9,254	5,407	4,834	2,728	2,933	3,079	4,087
530,661	431,951	252,070	282,754	269,914	284,041	280,073	223,082
41,609	41,933	40,970	85,250	34,352	66,065	68,811	15,514
152,262	151,853	96,415	91,492	112,158	102,601	100,239	96,911
11,273	9,093	3,951	3,874	9,380	2,340	7,007	1,344
48,668	50,522	38,722	33,665	23,795	28,973	31,288	29,583
63,856	61,381	59,573	56,201	62,831	60,345	55,587	51,685
10,452	14,385	13,012	12,061	10,454	9,488	9,096	9,450
328,120	329,167	252,643	282,543	252,970	269,812	272,028	204,487

nada Limited was distributed for each five shares of Common Stock of the Company.

†Restated—see Note 1 of Notes to Financial Statements.

TEN YEAR REVIEW OF OPERATING DATA

(barrels daily in thousands)

		67	66
Exploration and Drilling	Net acreage (in thousands)		
	Producing	855	897
	Non-producing	10,918	9,983
	TOTAL	11,773	10,880
	Net wells drilled		
	Exploratory—oil and gas	27	39
	dry holes	107	122
	Development—oil and gas	606	534
	dry holes	57	77
	TOTAL	797	772
	Net oil and gas wells producing or capable of producing	14,727	14,594
Production	Crude oil and natural gas liquids produced (barrels daily)		
	Gross	589	543
	Net		
	California	72	69
	Louisiana	240	208
	Montana	22	22
	New Mexico	14	16
	Oklahoma	14	15
	Texas	121	113
	Other	31	31
	TOTAL	514	474
	Natural gas liquids produced (incl. in above) (barrels daily)	54	52
	Gross natural gas produced (million cubic feet daily)	2,453	2,180
	Net natural gas produced (million cubic feet daily)	2,046	1,834
	Crude oil purchased (barrels daily)	875	797
	Crude oil sold (barrels daily)	561	505
Manufacturing	Refinery crude intakes (barrels daily)		
	Anacortes	81	76
	Houston	150	144
	Martinez	64	36
	Norco	174	152
	Odessa/Ciniza	38	38
	Wilmington	87	87
	Wood River	201	200
	TOTAL	795	733
	Refined products manufactured (barrels daily)		
	Gasolines	409	365
	Distillates	229	222
	Residuals	74	64
	All other products	112	107
	TOTAL	824	758
Transportation	Trunk pipeline mileage—crude oil (incl. partially-owned)	6,457	6,432
	Trunk pipeline mileage—products (incl. partially-owned)	7,781	7,821
	Crude oil transported by pipelines (million barrel miles)	109,951	104,715
	Products transported by pipelines (million barrel miles)	39,086	35,239
Marketing	Refined products sold (barrels daily)		
	Gasolines	454	424
	Distillates	285	267
	Residuals	89	83
	All other products	93	98
	TOTAL	921	872
	Natural gas sold (million cubic feet daily)	2,122	1,897
	Bulk distributing plants (leased and owned)	624	707
	Retail outlets (leased and owned)	11,600	11,700
	Retail outlets (other)	12,100	12,300

Shell Oil Company and Subsidiary Companies

65	64	63	62	61	60	59	58
860	844	723	695	656	599	552	520
1,405	14,702	15,066	14,619	14,164	13,395	12,509	11,675
2,265	15,546	15,789	15,314	14,820	13,994	13,061	12,195
35	52	32	16	27	36	40	31
104	142	108	85	72	101	127	105
413	732	479	505	607	589	612	573
126	83	88	102	75	80	65	73
678	1,009	707	708	781	806	844	782
4,670	14,699	14,152	13,549	13.077	12,096	11,825	11,374
493	466	452	430	415	404	398	379
65	64	63	65	72	77	81	83
187	170	156	141	122	113	98	84
21	23	23	21	21	20	17	20
15	13	13	13	14	16	18	18
15	15	15	15	14	15	15	18
101	95	93	88	84	80	82	76
27	27	31	32	36	33	37	35
431	407	394	375	363	354	348	334
47	42	42	38	35	34	32	32
1,926	1,821	1,656	1,516	1,310	1,231	983	886
1,626	1,559	1,413	1,299	1,129	1,064	853	770
789	753	677	608	599	543	534	451
493	459	408	363	369	347	357	277
71	69	54	55	46	44	42	40
142	138	143	119	114	107	111	104
36	40	42	42	35	39	38	39
137	120	115	115	108	103	100	90
35	25						
88	87	84	77	71	70	69	63
191	191	193	161	181	172	155	158
700	670	631	569	555	535	515	494
350	333	308	281	283	276	271	263
213	196	193	174	160	140	129	112
70	71	69	61	58	58	62	62
101	97	84	71	78	80	68	69
734	697	654	587	579	554	530	506
6,460	6,421	6,128	6,054	5,984	5,988	6,081	5,959
7,361	7,040	6,302	6,145	4,998	4,725	4,720	4,718
0,770	98,837	96,836	83,962	94,213	90,632	86,368	78,495
1,434	26,943	26,033	23,851	21,730	21,215	20,795	20,116
394	370	335	314	293	279	286	272
254	227	212	199	171	150	135	126
89	83	80	68	66	68	64	72
93	84	78	70	67	67	65	64
830	764	705	651	597	564	550	534
1,661	1,565	1,429	1,335	1,184	1,109	942	863
703	701	699	737	744	771	773	784
1,500	11,300	10.700	10,300	9,900	9,500	9,000	8,800
3,100	13,000	12,800	12,900	13,300	13,400	14,200	14,600

BOARD OF DIRECTORS

MONROE E. SPAGHT*	*Chairman A Managing Director, Royal Dutch Petroleum Company*
R. C. McCURDY*	*President and Chief Executive Officer*
D. H. BARRAN	*Chairman and a Managing Director of The "Shell" Transport and Trading Company, Limited*
WILLIAM BLACKIE	*Chairman of the Board and Chief Executive Officer, Caterpillar Tractor Co.*
L. E. J. BROUWER	*President, Royal Dutch Petroleum Company*
E. G. CHRISTIANSON*	*Executive Vice President*
CHARLES de BRETTEVILLE	*Chairman of the Board, President and Chief Executive Officer, The Bank of California National Association*
WILLIAM P. GWINN	*President and Chief Executive Officer, United Aircraft Corporation*
D. B. KEMBALL-COOK*	*Executive Vice President*
S. M. McASHAN, JR.	*Chairman of the Board, Anderson, Clayton & Co.*
HAROLD F. McGUIRE*	*Partner of Wickes, Riddell, Bloomer, Jacobi & McGuire*
E. CHESTER PEET	*Member of the Governing Committee of the U.S. Philips Trust*
J. B. ST. CLAIR	*President, Shell Chemical Company*

**Member of the Executive Committee*

EMERITUS DIRECTOR

JAMES H. DOOLITTLE

OFFICERS

R. C. McCURDY	*President*
E. G. CHRISTIANSON	*Executive Vice President*
D. B. KEMBALL-COOK	*Executive Vice President*
MONROE E. SPAGHT	*Chairman of the Executive Committee*

VICE PRESIDENTS

Exploration and Production

B. P. EASTIN	*Production*
R. E. McADAMS	*Exploration*
G. C. BANKSTON	*Houston Area*
J. F. BOOKOUT	*New Orleans Area*
C. P. BRISTOL	*Midland Area*
G. A. BURTON	*Pacific Coast Area*
J. E. WILSON	*Denver Area*

Manufacturing

H. E. WALKER

Transportation & Supplies

R. M. HART

Marketing

P. C. THOMAS	
C. A. FOSTER, JR.	*Western Marketing Region*
M. B. HOLDGRAF	*Central Marketing Region*
F. H. STAUB	*Eastern Marketing Region*
C. L. TOWERS	*Southern Marketing Region*

Financial

J. A. HORNER

Legal

W. F. KENNEY

Personnel and Industrial Relations

J. C. QUILTY

Public and Shareholder Relations

E. A. HUGILL, JR.

Purchasing

G. W. HULDRUM, JR.

E. A. HUGILL, JR.	*Secretary*
R. H. RICHARDS	*Controller*
M. E. ROBINSON	*Treasurer*

SHELL CHEMICAL COMPANY

a Division of Shell Oil Company

J. B. ST. CLAIR	*President*
J. P. CUNNINGHAM	*Vice President*
J. W. HYDE	*Vice President*
W. Q. MOONEY	*Vice President*
C. L. RAYMOND	*Vice President*

SHELL DEVELOPMENT COMPANY

a Division of Shell Oil Company

T. BARON	*President*
S. A. BALLARD	*Vice President*
A. J. JOHNSON	*Vice President*
R. H. NANZ	*Vice President*
N. D. SMITH, JR.	*Vice President*

SHELL PIPE LINE CORPORATION

J. H. PITTINGER	*President*
R. L. KOONS	*Treasurer*
W. J. WILLIAMSON	*Secretary*

HEAD OFFICES

SHELL OIL COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL CHEMICAL COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL DEVELOPMENT COMPANY
50 West 50th Street, New York, N. Y. 10020

SHELL PIPE LINE CORPORATION
Shell Building, P.O. Box 2648, Houston, Texas 77001

TRANSFER AGENTS

IRVING TRUST COMPANY
1 Wall Street, New York, N. Y. 10015

THE BANK OF CALIFORNIA NATIONAL ASSOCIATION
545 Sansome Street, San Francisco, Calif. 94120

CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO
231 South LaSalle Street, Chicago, Ill. 60690

Notice of change of shareholder's address should be sent to one of the above transfer agents.

REGISTRARS

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
30 West Broadway, New York, N. Y. 10015

CROCKER-CITIZENS NATIONAL BANK
79 New Montgomery Street, San Francisco, Calif. 94105

HARRIS TRUST AND SAVINGS BANK
111 West Monroe Street, Chicago, Ill. 60690

EXECUTIVE CHANGES

The following changes were effected in the management of the Company:

J. B. St. Clair, Vice President Transportation and Supplies, was elected President of Shell Chemical Company and a Director of Shell Oil Company, succeeding C. W. Humphreys, who retired after a career of 36 years with the Shell organization.

In the Exploration and Production Organization, J. F. Bookout became Vice President, New Orleans Area, and J. E. Wilson became Vice President, Denver Area, in an exchange aimed at broadening the experience and capabilities of the senior Exploration and Production management team.

H. E. Walker, General Manager Refineries, was elected Vice President Manufacturing, succeeding P. J. Merkus, who retired after nearly 34 years of Shell service.

R. M. Hart, General Manager, Transportation and Supplies, was elected Vice President Transportation and Supplies, succeeding Mr. St. Clair.

E. A. Hugill, Jr., Assistant to the President and Corporate Secretary, was elected Vice President Public and Shareholder Relations, while retaining the post of Corporate Secretary. He succeeded G. G. Biggar, Vice President Public Relations, who retired after 35 years' service.

In Shell Chemical Company, B. M. Downey, Vice President with responsibility for manufacturing advisorship, retired after serving 42 years, being replaced by J. W. Hyde, formerly General Manager, Ammonia Division; and S. H. McAllister, Vice President with responsibility for general advisorship in the biological field, retired after serving 37 years.

In Shell Development Company, T. Baron, Vice President, Exploration and Production Research Center, was elected President upon the retirement of T. W. Evans after a Shell career of 37 years. R. H. Nanz, Exploration Manager, Pacific Coast Exploration and Production Area, replaced Mr. Baron.

SHELL